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SBC Submission on NZX's review of corporate governance reporting requirements within NZX Main Board Listing Rules

NZX is currently reviewing its corporate governance reporting requirements within the NZX Main Board Listing Rules and has released a discussion document seeking feedback.

Sustainable Business Council supports the key objectives NZX is seeking to achieve as part of its current review and supports NZX as it looks to address more clearly the issue of effective disclosure so that it keeps up with international developments and remains relevant to New Zealand businesses in future.

Please find attached a paper that outlines our view on the importance of non-financial disclosure. This paper provides NZX with the principles we recommend for helping improve sustainability disclosure for listed companies in New Zealand.

In summary:

The Sustainable Business Council has an aspiration for business to recognise the value of understanding financial, social and environmental risks and opportunities and actively managing and disclosing them. International experience shows all stakeholders have a role in supporting better sustainability disclosure. Financial markets, in particular have helped shift the standard for reporting globally.

To connect financial, environmental, and social performance through disclosure in New Zealand we recommend the following five important areas for NZX action:

- Extend a 'comply or explain' approach to sustainability disclosure for listed companies.
- Allow for non-prescriptive disclosure, focusing on a company's material issues and their approach to identifying these issues.
- Encourage disclosure to be balanced, transparent and public.
- Companies encouraged to disclose both risks and opportunities to demonstrate how they are adding value.

- Regularly review the guidelines’ effectiveness in improving reporting over time.

In addition to the paper attached we have answered some of the direct questions relevant to our position asked by NZX in relation to this review below:

Question Number	Question	SBC Answer
2.	Do you agree that NZX should adopt the FMA principles as the basis for an updated reporting regime?	Yes. Consistency in frameworks in NZ is needed. It provides a greater level of certainty for business.
3.	Do you agree with a tiered approach to a reporting regime?	Yes.
4.	Do you agree that recommendations should be reported against on the basis of an approach of “comply or explain”?	Yes. We would support a report or explain/comply or explain approach for recommendations because this provides companies with greater flexibility in how they respond to guidance. Report or explain is also the approach favoured by the United Nations in its 2014 report titled <i>Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives</i> .
Principle 4: Reporting and disclosure		
	General comment:	We consider it very important to ensure that non-financial reporting is completed under a ‘comply or explain’ recommendation with a best practice commentary to support this and not just in a best practice commentary section. As an example, Singapore Exchange (SGX) has recently provided a good case study for why voluntary reporting alone (without a ‘comply or explain’ approach in the recommendations) is unlikely to lead to better disclosure. Since 2011 when SGX launched voluntary guidelines for sustainability reporting, take-up by companies has been limited with only a handful of companies embarking on such activities. It was believed that companies who were not reporting on sustainability were waiting for mandatory requirements to do so. SGX plans to increase the transparency of governance with sustainability reporting on a “comply or explain” basis and is currently consulting with stakeholders on this.
19.	Should NZX introduce any additional recommendations or best practice commentary in relation to non-financial reporting matters, including ESG	Yes. We recommend the commentary outlines the need for balanced, transparent and public disclosure which connects financial, environmental and social performance given the extent to which non-financial matters affect the current and future finances of an organisation. This allows the issuer’s stakeholders to have a better understanding of their overall performance, risks and opportunities.

	<p>disclosures? a. If so, which issues (and metrics) should be reported?</p>	<p>We do not think it is necessary, in these early stages, to prescribe a specific framework for listed issuers to report to. A non-prescriptive approach allows greater flexibility for issuers to disclose in a way that suits their needs. SBC’s own experience is that non-prescriptive sustainability reporting (which companies commit to as members) means businesses employ a range of methods. The important thing is, through the process of reporting, each company builds a better understanding of its material issues and opportunities and has a robust process for doing so. Over time, we want to see a pathway toward using international best practice frameworks that allow non-financial information to be subjected to the same amount of scrutiny as financial information.</p> <p>We don’t think it would be useful for NZX to pick out individual metrics to report on but instead guide issuers to report on those ESG metrics most material to their business in the short, medium and long term. For those wanting a steer on what metrics are reported by others internationally and how to report them there are already a number of frameworks that contain these e.g. the Global Reporting Initiative G4 which a number of issuers already use in New Zealand.</p> <p>This is also the approach taken by the United Nations in its 2014 report titled <i>Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives</i>. Which states: <i>“Material issues can vary greatly depending on the industry, the business model and the regions of operation. One policy option is for stock exchanges and/or regulators to require companies to conduct their own materiality analysis and to disclose both their process and the results. This approach can avoid a need to provide prescriptive guidance on exactly what to report. Guidance exists on how to conduct a materiality analysis, for example, from the Carbon Disclosure Standards Board, Global Reporting Initiative, International Accounting Standards Board, International Integrated Reporting Council and International Organization for Standardization. This approach will encourage companies to think – actively, and on an ongoing basis – about how sustainability issues affect their business and to define the thresholds that deem an issue material.”</i></p>
20.	Should NZX include	Yes – an outline of the value proposition for better ESG

	anything else in this area, including within best practice commentary?	disclosure. Something along the lines of: <i>Better sustainability management and disclosure is not about creating unnecessary bureaucracy. It is about getting to know your business better and allowing your stakeholders to do the same. It makes good business sense. Just like financial reporting, it can provide important information that adds value to the organisation. Studies show that it results in better operational performance both here in New Zealand¹ and internationally².</i>
Principle 6: Risk Management		
27.	Should NZX recommend/suggest that issuers specifically report on economic, environmental and social sustainability (or ESG) risks?	<p>Yes. Successful disclosure should explain how an issuer manages material risks, such as absenteeism, diversity, environmental compliance or health and safety. It should also explain how an issuer identifies long-term opportunities and risks so all stakeholders can build a clearer picture of its ability to manage and improve performance. Updated guidance should encourage issuers to demonstrate ways they can add value to their business by improving their management of environmental and social risks and opportunities.</p> <p>As mentioned in our attached paper, we suggest stating that the issuer's Board should adopt a comprehensive risk management approach including financial, environmental, social and governance risks. This approach should focus on a robust process for identifying risks that are material to the entity and should include a discussion on risks that exist in the short, medium and long term and how they are/will be managed. Material risks across the entity's value chain should also be considered and discussed.</p>
28.	Should NZX address anything else in this area, including within best practice commentary?	<p>Yes, as mentioned in our attached paper, highlighting to issuers the risks of inaction e.g. there are a number of risks if issuers fail to meet the shifting expectations for disclosure, including:</p> <ul style="list-style-type: none"> • the international community begins to question the operating environment for business in New Zealand if it does not meet the changing international standards for transparency and accountability; • issuers are unable to respond to the needs of investor requests for information, making it harder to secure investments over time;

¹ http://responsibleinvestment.org/wp-content/uploads/2015/08/2015_Benchmark_Report_NZ_FINAL.pdf

² The Smith School of Enterprise and the Environment and Arabesque Asset Management produced, in 2014, a report titled From the Stockholder to the Stakeholder, which investigates over 190 quality academic studies and sources on sustainability to assess the economic evidence for sustainable practices. This study found, amongst other things, that 88% of the studies reviewed show that solid ESG practices result in better operational performance and 80% of the studies reviewed suggested that stock price performance is positively influenced by good sustainability practices.

		<ul style="list-style-type: none"> • issuers lose their social licence to operate within New Zealand or overseas; and • issuers operating within international supply chains are deprioritised because they cannot meet international requests for information on financial, environmental and social impacts.
Principle 9: Stakeholder interests		
34.	Do you consider it appropriate to adopt FMA's principle 9 (potentially amended)?	Yes – However we suggest adding a point on engagement as follows: <i>The Board should ensure sufficient channels for transparent and accountable, periodic engagement and reporting on environmental, social and governance issues with stakeholders.</i>
35.	What best practice commentary is appropriate for listed issuers in this area?	For stakeholders to understand the issuer's business they need to have the full picture. We believe issuers and their stakeholders will get more value if they manage and report on the material ESG risks and opportunities.

We have no objection to the release of information contained within this submission.

Yours Sincerely

Penny Nelson

Executive Director

Sustainable Business Council

Improving Sustainability Disclosure in New Zealand

November 2015

Executive Summary

There is a growing body of international evidence showing that better measuring, monitoring and disclosure of environmental and social impacts and performance, alongside financial performance, supports businesses in the long-term. For many companies, it can:

- increase access to capital;
- improve business resilience by growing understanding of risks and opportunities;
- improve investor understanding of company performance and enhance transparency;
- strengthen stakeholder relationships, including with employees;
- help businesses meet consumer expectations;
- reduce costs of non-compliance and increase efficiencies; and
- increase competitive advantage through enhanced reputation and brand³.

In summary, better sustainability disclosure⁴ supports businesses to earn and maintain a social licence to operate, which is vital in today's increasingly interconnected world.

Successful disclosure should explain how a company manages material risks, such as absenteeism, diversity, environmental compliance or health and safety. It should also explain how a company identifies long-term opportunities so all stakeholders can build a clearer picture of its ability to manage and improve performance.

New Zealand sits well behind its international counterparts on sustainability disclosure. Only 17% of large New Zealand businesses disclose their social and environmental performance compared to 71% of large businesses across the Asia-Pacific⁵.

Better sustainability management and disclosure is not about creating unnecessary bureaucracy. It is about getting to know your business better and allowing your stakeholders to do the same. It makes good business sense. Just like financial reporting, it can provide important information that adds

³ <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/sustainability-roundtable.pdf> and <https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx>

⁴ There has been increasing focus from the investment community in New Zealand on environmental, social and governance (ESG) issues as these have not had the same performance scrutiny as financial matters. For the purpose of this paper we use the term sustainability disclosure as an inclusive term to include ESG issues as well as financial performance for a balanced approach.

⁵ 17% of top 100 companies by revenue (N100) produce a New Zealand-specific sustainability report - *KPMG 2013 Survey of Corporate Responsibility Reporting*

value to the organisation. Studies show that it results in better operational performance both here in New Zealand⁶ and internationally⁷.

There are also a number of risks if New Zealand businesses fail to meet the shifting expectations for disclosure, including:

- the international community begins to question the operating environment for business in New Zealand if it does not meet the changing international standards for transparency and accountability;
- businesses are unable to respond to the needs of investor requests for information, making it harder to secure investments over time;
- businesses lose their social licence to operate within New Zealand or overseas; and
- businesses operating within international supply chains are deprioritised because they cannot meet international requests for information on financial, environmental and social impacts.

Summary recommendations

Opportunities to increase sustainability disclosure in New Zealand

The Sustainable Business Council has an aspiration for business to be able to recognise the value of understanding financial, social and environmental risks and opportunities and actively managing and disclosing them. Here in New Zealand, we want to see all large and listed companies achieve this by 2020. The opportunities for encouraging this include:

1. NZX considering the following when updating its Corporate Governance Guidelines:
 - Extend a report or explain approach to sustainability disclosure for listed companies
 - Non-prescriptive disclosure, focusing on a company's material issues and its approach to identifying these issues.
 - Encourage disclosure to be balanced, transparent and public.
 - Companies are encouraged to disclose both risks **and** opportunities to demonstrate how they are adding value.
 - Regularly review the guidelines' effectiveness in improving reporting over time.
2. The Financial Markets Authority (FMA) going further in its guidelines and commentary around non-financial disclosure in its Corporate Governance in New Zealand Handbook for Directors.
3. SBC engaging with the Institute of Directors (IoD), New Zealand Corporate Governance Forum (NZCGF) and the Responsible Investment Association Australasia (RIAA) to share knowledge and identify opportunities for strengthening sustainability disclosure in New Zealand.
4. Continuing to raise the standard of disclosure among SBC member companies.

⁶ http://responsibleinvestment.org/wp-content/uploads/2015/08/2015_Benchmark_Report_NZ_FINAL.pdf

⁷ The Smith School of Enterprise and the Environment and Arabesque Asset Management produced, in 2014, a report titled From the Stockholder to the Stakeholder, which investigates over 190 quality academic studies and sources on sustainability to assess the economic evidence for sustainable practices. This study found, amongst other things, that 88% of the studies reviewed show that solid ESG practices result in better operational performance and 80% of the studies reviewed suggested that stock price performance is positively influenced by good sustainability practices.

About the Sustainable Business Council

The Sustainable Business Council advocates a better way of doing business; one that helps create a sustainable future for New Zealand. It is the voice of sustainable business in New Zealand and connects and inspires New Zealand businesses to work together to come up with solutions. It is action-focused and currently coordinates a range of projects. It is the New Zealand global network partner to the World Business Council for Sustainable Development.

The Sustainable Business Council has 85 members, accounting for about a third of private sector GDP in New Zealand and 70% of the NZX top 10 by market capitalisation. Membership includes many of New Zealand's largest businesses across a wide range of industries. Our council members are senior executives and decision-makers. All members have made a commitment to the balanced pursuit of economic growth, ecological integrity and social progress within a business context and to report on their progress.

Purpose of this paper

NZX is updating the stock exchange's Corporate Governance Best Practice Code, which will include a review of the appropriate expectations in relation to non-financial disclosure. This paper provides NZX with the principles SBC recommends for helping improve sustainability disclosure for listed companies in New Zealand.

While researching the paper, SBC concluded there are wider benefits for New Zealand if more businesses, beyond listed companies, also improve sustainability disclosure. This paper identifies other groups that could be catalysts to achieve this. Finally, the paper provides SBC members with more information on current trends and reporting requirements here and overseas. Members regularly ask us for this.

International experience

Global initiatives

The World Business Council for Sustainable Development (WBCSD) advocates that "concise corporate disclosures that connect financial, environmental and social performance play a critical role in challenging and changing perceptions of value and therefore driving the transition to a more sustainable and inclusive economy". Sustainability reporting also features on the international development agenda. In the UN Sustainable Development Goals (SDGs), goal 12.6 specifically encourages companies, especially large and transnational companies, to integrate sustainability information into their reporting cycles.

In 2009, United Nations Secretary-General Ban Ki moon launched the Sustainable Stock Exchanges initiative, an effort co-organised by The United Nations Conference on Trade and Development (UNCTAD), the Global Compact, the United Nations-supported Principles for Responsible Investment and the United Nations Environment Programme (UNEP) Finance Initiative. A number of global stock exchanges have signed up to take part in this voluntary public commitment to promote improved corporate reporting on environmental, social and governance issues including the London Stock Exchange, the NASDAQ OMX, NYSE and 13 others.

Approaches taken to sustainability information

Beyond New Zealand, sustainability disclosure is now widespread⁸. There are a range of approaches taken to encourage this. In 2013, the Carrot and Sticks⁹ report by the United Nations Environment Programme (UNEP), Global Reporting Initiative (GRI), KPMG and the Centre for Corporate Governance in Africa provided a comprehensive overview of the approaches favoured by different countries. They range from voluntary disclosure to mandatory requirements and can be led by governments and market regulators, stock exchanges, investors or other stakeholders. One example is the requirement for all UK quoted companies (under the Climate Change Act 2008) to report on their greenhouse gas emissions as part of their annual Directors' Report. That requirement affects all UK incorporated companies listed on the main market of the London Stock Exchange, a European Economic Area market or whose shares are dealing on the New York Stock Exchange or NASDAQ¹⁰

Elsewhere, policy-makers, legislators, financial markets and investors have played an important role in increasing sustainability disclosure. The European Commission is one example. In 2014, it introduced a directive on disclosure of non-financial and diversity information that applies to around 6,000 organisations across the EU. It allows significant flexibility in how companies disclose and within two years will be made into national legislation by member states¹¹.

Increasingly, investors and other stakeholders are driving greater disclosure¹². For example, companies are being rated on ESG performance¹³ by groups such as MSCI¹⁴ and Bloomberg¹⁵ and in Australia, investors have publicly singled out companies that aren't reporting sustainable business risks¹⁶. The CDP is a UK-based organisation which requests information on the risks and opportunities of climate change from the world's largest companies on behalf of 822 institutional investor signatories with a combined US\$95 trillion in assets¹⁷. The organisation drives transparency in disclosure by making responses, or a lack of response, publicly available. In 2014, almost 2,000 businesses globally reported climate change data to CDP¹⁸. The NZX50 are invited to submit to the initiative each year. About a third did so in 2015.

⁸ Findings of a 2013 global survey of corporate responsibility reporting suggest this is now a mainstream business practice worldwide, undertaken by almost three quarters (71 percent) of 4,100 companies surveyed <https://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013-exec-summary.pdf>

⁹ <https://www.globalreporting.org/resource/library/Carrots-and-Sticks.pdf>

¹⁰ <https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance>

¹¹ http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm

¹² A 2015 survey by the World Federation of Exchanges survey found environment, social and corporate governance (ESG) concerns are becoming widespread among global capital market participants with 39 percent of respondents stating they had received ESG-related queries from investors, with a number saying such inquiries are on the increase http://www.world-exchanges.org/files/statistics/pdf/20150723_SWG_Report_0.pdf

¹³ This data can be used by investors when assessing potential investments. If organisations do not provide ESG data themselves, then groups may need to find their own data, or can provide a low score due to a lack of data. This can affect credit ratings and access to capital/interest requirements.

¹⁴ <https://www.msci.com/esg-integration>

¹⁵ <http://www.bloomberg.com/bcause/customers-using-esg-data-increased-76-in-2014>

¹⁶ The Australian Securities Exchange (ASX) recently responded to this by updating its Corporate Governance Charter to include the required disclosure of a company's material exposures to economic, environmental and social sustainability risks and also, how those risks are managed. <http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>

¹⁷ <https://www.cdp.net/en-US/Pages/About-Us.aspx>

¹⁸ <https://www.cdp.net/CDPResults/CDP-climate-performance-leadership-index-2014.pdf>

A number of stock exchanges and regulators have introduced a ‘report or explain’ approach to reporting – either disclose sustainability performance or explain the reasons you haven’t. According to the GRI, report or explain can be introduced in a number of ways: for example, as smart ‘soft’ regulation or as a mandatory requirement¹⁹. The benefits of ‘report or explain’ are that it can provide guidance to companies, but also allow greater flexibility for how companies report. Countries that use the ‘report or explain’ approach include Australia, Singapore, South Africa and Denmark, whose experiences could be useful for New Zealand.

Globally, mandatory reporting of sustainability performance is increasing. A number of exchanges now require this including Brazil, Taiwan, Shanghai and Johannesburg. Some exchanges, like Johannesburg²⁰, require reporting to global best practice frameworks. In recent years, several leading frameworks have emerged. They include the Integrated Reporting Framework from the International Integrated Reporting Council and the G4 Guidelines (an update of the G3.1 Guidelines) from the Global Reporting Initiative. Other countries only require disclosure on single issue topics, for example, greenhouse gas emissions or waste.

Potential groups to act as catalysts in New Zealand

Currently, there are no legislative requirements from government or financial markets for New Zealand businesses to comprehensively and publicly measure, monitor and disclose information about their environmental, social and financial performance.

Research shows that in New Zealand, most reporting is voluntary (aside from that required by overseas listings, parent companies or other stakeholders), however, the rate of reporting appears to have plateaued²¹. According to KPMG’s 2013 Corporate Responsibility Survey, overall the quality of the few companies reporting is not far below international practice. However, it states that substantial improvements are needed for reporting to be seen as “effective, strategic and balanced”²².

Key catalysts for improving effective, strategic and balanced sustainability disclosure in New Zealand are likely to include:

- Updated guidance from the NZ Stock Exchange (for listed companies).
- FMA includes reference to non-financial disclosure in governance guidelines.
- Pressure from investors to disclose information and the changing approach to fiduciary responsibility²³.
- Pressure from other stakeholders, especially customers/consumers.
- Growing awareness among governance-level influencers, for example, Institute of Directors.
- Sharing of exemplar reporting and disclosure practices between businesses.

What key players are doing now

¹⁹ <https://www.globalreporting.org/SiteCollectionDocuments/ReportOrExplainBrochure.pdf>

²⁰ <http://www.world-exchanges.org/insight/views/integrating-sustainability-south-africa>

²¹ KPMG 2013 Survey of Corporate Responsibility Reporting

²² <https://www.kpmg.com/NZ/en/IssuesAndInsights/ArticlesPublications/Documents/KPMG-Corporate-Responsibility-Survey-2013.pdf>

²³ <http://www.unpri.org/wp-content/uploads/3.Responsibleinvestmentandfiduciaryduty.pdf>

The New Zealand Stock Exchange (NZX) - The NZX is beginning to look at this issue through public consultation in a review of its Corporate Governance Best Practice Code in November 2015. Non-financial reporting (including sustainability issues) will form part of this review.

Financial Markets Authority - The FMA has a set of principles and guidelines published in its Corporate Governance in New Zealand Handbook for Directors. The FMA principles apply to a wide range of entities including unlisted, listed, governmental and not-for-profit organisations. These guidelines, while referencing some non-financial issues for disclosure, could go further to explicitly state how disclosure of these areas add value through minimising risk, greater transparency, balance and accountability for stakeholders. We are working with FMA as they look to ensure their Handbook accurately reflects current issues for NZ business.

Investors – Many institutional investors want better disclosure across a range of issues material to the long-term success of a company. Research by the Responsible Investment Association Australasia (RIAA) found New Zealand’s responsible investment sector grew by 10% in 2014 to reach \$63.5 billion for assets under management by 31 December 2014. It attributes the increase to a number of examples of poor environmental, social, governance and ethical issues impacting shareholder value, a growing demand from consumers, and increasing pressure from activists and civil society groups.²⁴

There is also a changing approach to fiduciary responsibility highlighted by the UNPRI. It has been driven by more awareness of systemic risk, the materiality of ESG issues and their strong links to financial performance. It is also driven by rapidly changing expectations of investors and their changing expectations of investment managers²⁵.

The New Zealand Corporate Governance Forum is a group of leading New Zealand institutional investors that collectively manages over 15% of the total New Zealand equity market (NZ\$10 billion worth). It recently released a contemporary governance reference for shareholders, chairpersons, directors and senior executives of listed companies. It has produced extended guidance for companies and investors in the listed company environment, based on international best practice and leveraged from the FMA reporting and disclosure guidelines. The Forum’s Guidelines mandate boards to report on analysis of environmental, social and governance considerations so that shareholders understand how the company manages those issues. It recommends boards adopt a comprehensive enterprise risk management approach, including financial, strategic and environmental, social and governance risks.

New Zealand Superfund believes that responsible investors must have concern for environmental, social and governance factors because they are material to long term returns. These beliefs are integrated into all aspects of the Fund’s investment activities including investment selection and due diligence, ownership activities, for example, monitoring external investment managers, exercising voting rights and engaging with companies to improve ESG policies and practices. They have recently produced a white paper titled “Why we believe responsible investing pays off”²⁶ which summarises the underlying empirical evidence for their belief that responsible investing is good for the portfolio, can be a source of opportunities and a way to control risk.

²⁴ http://responsibleinvestment.org/wp-content/uploads/2015/08/2015_Benchmark_Report_NZ_FINAL.pdf

²⁵ <http://www.unpri.org/wp-content/uploads/3.Responsibleinvestmentandfiduciaryduty.pdf>

²⁶ <https://www.nzsuperfund.co.nz/sites/default/files/documents-sys/White%20Paper%20ESG%20Beliefs.pdf>

Institute of Directors (IoD) and other governance-level influencers - There is growing awareness of the importance of having good information to support governance. The IoD recently released a Directors Brief on corporate transparency and the future of reporting. In this they discuss the importance of providing consistent and comparable information for non-financial as well as financial information. They also recommend the link be made between past and future performance and the balance between short, medium and long-term interests. We look forward to engaging with IoD further.

Recommendations

The Sustainable Business Council has an aspiration for business to recognise the value of understanding financial, social and environmental risks and opportunities and actively managing and disclosing them. Here in New Zealand, we want to see all large and listed companies achieve this by 2020. International experience shows all stakeholders have a role in supporting better sustainability disclosure. Financial markets, in particular have helped shift the standard for reporting globally.

To connect financial, environmental, and social performance through disclosure in New Zealand we recommend the following four important areas for action:

1. NZX - We welcome the NZX's review of its Corporate Governance Best Practice Code, that will include a review of appropriate expectations in relation to non-financial disclosure. In doing so, we recommend NZX consider the following in relation to environmental and social (non-financial) disclosure:

- Extend a report or explain approach to sustainability disclosure for listed companies.
- Non-prescriptive disclosure, focusing on a company's material issues and their approach to identifying these issues.
- Encourage disclosure to be balanced, transparent and public.
- Companies encouraged to disclose both risks **and** opportunities to demonstrate how they are adding value
- Regularly review the guidelines' effectiveness in improving reporting over time

We would support a 'report or explain' approach²⁷ because this provides companies with greater flexibility in how they respond to guidance. Report or explain is also the approach favoured by the United Nations in its 2014 report titled *Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives*²⁸.

ASX used the report or explain approach to disclose non-financial risks in its July 2014 update²⁹. It's still too early to tell whether this approach has shifted the level of non-financial disclosure in Australia³⁰ however many believe it will have the same sort of ripple effect that was seen in 2011

²⁷ ASX provides a useful commentary on this in its Corporate Governance Principles and Recommendations. See Recommendation 7.4 on P30 <http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>

²⁸ http://unctad.org/en/PublicationsLibrary/diaeed2013d6_en.pdf

²⁹ ASX updated guidance for reporting non-financial risk. Publicly listed companies are required to either disclose exposure to economic, environmental and social risks and how these will be managed, or explain why they haven't done so.

³⁰ Since SGX launched voluntary guidelines for sustainability reporting in 2011, take-up by companies had been limited. SGX found some companies were *waiting* for mandatory requirements before engaging in disclosure. It's still too early to tell whether ASX will also need to manage its reporting over time. At present, smaller listed companies continue to provide basic or no sustainability reporting.

when the ASX introduced a similar type of disclosure rule around gender diversity. We recommend a regular review to see whether the level of sustainability information on material issues disclosed has increased and is adding value to the companies and their stakeholders.

Some stock exchanges require companies to adhere to a specific framework for reporting. For example, in South Africa listed companies must report using the IIRC framework and in Sweden, the GRI framework. We do not think it is necessary, in these early stages, to prescribe a specific framework for companies to report to. A non-prescriptive approach allows greater flexibility for companies to disclose in a way that suits their needs. SBC's own experience is that non-prescriptive sustainability reporting (which companies commit to as members³¹) means businesses employ a range of methods. The important thing is, through the process of reporting, each company builds a better understanding of its material issues and opportunities and has a robust process for doing so. Over time, we want to see a pathway toward using international best practice frameworks that allow non-financial information to be subjected to the same amount of scrutiny as financial information.

We believe companies and their stakeholders will get more value if they manage and report on the material risks **and** opportunities to improve the sustainability performance of their products or services. Updated guidance should encourage companies to demonstrate ways they can add value to their business by improving their management of environmental and social risks and opportunities.

We support public disclosure. There is plenty of evidence to suggest that public disclosure benefits all parties. For example, Standard & Poor's Ratings Services President Neeraj Sahai recently said, in its experience, greater transparency aids more efficient allocation of capital and benefits the economy as a whole.

FMA Corporate Governance in New Zealand Handbook for Directors

The FMA's handbook is a good starting point for business to think about corporate governance issues but there is an opportunity to make it clearer and of greater value for users and their stakeholders.

The NZCGF has already provided some good suggestions in relation to the FMA handbook³². We support those amendments. Based on our own experience and based on our research, we would also recommend the following changes to Principles 4, 6 and 9 of the FMA handbook:

- In Principle 4 – Reporting and disclosure. We suggest shifting the focus from 'financial reporting' to financial and non-financial disclosures that connect financial, environmental and social performance given the extent to which non-financial matters affect the current and future finances of an organisation.
- In Principle 6 – Risk Management: We suggest adding that the Board should adopt a comprehensive risk management approach including financial, environmental, social and governance risks. This approach should focus on a robust process for identifying risks that are material to the entity and should include a discussion on risks that exist in the short, medium and long term and how they are/will be managed. Material risks across the entity's value chain should also be considered and discussed.
- In Principle 9 – Stakeholder interests: We suggest adding a point on engagement. The Board should ensure sufficient channels for transparent and accountable, periodic engagement and reporting on environmental, social and governance issues with stakeholders.

³¹ See Appendix 1: SBC member commitments

³² <http://www.nzcgf.org.nz/assets/Uploads/guidelines/nzcgf-guidelines-july-2015.pdf>.

2. Strengthen FMA guidelines

The FMA will be important in encouraging companies that are not listed on the NZX to disclose their financial, environmental and social performance. SBC and FMA are currently discussing how this could be done.

3. Work with IoD, NZCGF and RIAA to identify new opportunities

We also support the proactive approach taken by the IoD, NZCGF and RIAA to encourage better non-financial disclosure. Internationally, pressure from investors has played a crucial role in raising awareness of the importance of sustainable disclosure. We look forward to identifying opportunities to work with these organisations and others to strengthen reporting in New Zealand.

4. Continuing to raise the standard of disclosure among SBC member companies

In addition, all Sustainable Business Council members will continue to focus on 'raising the ceiling' for sustainability reporting and disclosure in New Zealand³³.

- SBC will continue to require member businesses to commit to reporting on their sustainable business performance as part of their membership commitments.
- We will work with members to continually improve the overall standard of their sustainability reporting.
- We will share and promote exemplar case studies with membership and the wider business community.
- We will share our knowledge and expertise with NZX, IoD and others so they can support wider New Zealand business community to navigate and transition to better disclosure.
- We will work with regulators and investors to continue to lift the overall standard of sustainability reporting in New Zealand.

SBC will endeavour to continue to share exemplar disclosure and reporting practices through its networks including the BusinessNZ family.

Useful information

Developing and implementing best practice reporting

Many resources and case studies have been published to assist stock exchanges. UNCTAD released a document last year titled Best Practice Guidance for Policymakers and Stock Exchanges on Sustainability Reporting Initiatives. We think this guidance on how to develop and implement best practice sustainability reporting would be useful in a New Zealand context.

- http://unctad.org/en/PublicationsLibrary/diaeed2013d6_en.pdf

Case study on consultation

Singapore Exchange (SGX) began with engaging listed companies and is now broadening this out to investors and wider stakeholders with the aim to, by the end of 2015, develop a new listing rule and updating the existing Guide to Sustainability Reporting for Listed Companies. Since SGX launched voluntary guidelines for sustainability reporting in 2011, take-up by companies has been limited with only a handful of companies embarking on such activities. It was believed that companies who were

³³ See Appendix 1 for SBC member commitments on disclosure

not reporting on sustainability were waiting for mandatory requirements to do so.

- <http://www.eco-business.com/news/sgx-make-sustainability-reporting-mandatory>
- http://www.sgx.com/wps/wcm/connect/sgx_en/home/highlights/news_releases/sgx-progresses-on-sustainability-reporting

Appendix 1

SBC member commitments on sustainability performance and disclosure

SBC members make a series of commitments on joining. These aim to add value to members by improving their understanding, monitoring and measuring of progress toward environmental, social and economic goals.

An SBC member must seek to actively demonstrate business leadership in sustainable business and will commit to support the work of the SBC through making available in-house competence and appropriate human resources. Members must share a commitment to the balanced pursuit of economic growth, ecological integrity and social progress and work towards achieving the outcomes listed in the SBC's Statement on Principles for Sustainable Development.

In addition, but not limited to, each member is required to:

- a) produce a sustainable development report, integrated report or public account demonstrating that member's progress on environmental, social and economic performance within 2 years of becoming a member;
- b) participate in at least one SBC initiative every two years;
- c) have the Chief Executive or director of that member, or a direct report to the Chief Executive, to attend at least one SBC meeting in each calendar year;
- d) prior to providing the SBC with a sustainable development report, integrated report or public account, members will provide SBC with an annual summary on that member's progress and plans in implementing sustainable business practices, including the areas covered by SBC projects;
- e) respond to any reasonable and relevant request for information from the Advisory Board that is not commercially sensitive;
- f) begin to measure and report to the SBC on that member's carbon footprint, within two years of becoming a member;
- g) report to the SBC on that member's plan to reduce its carbon intensity within three years of becoming a member;
- h) report to the SBC on that member's process for procuring sustainably within three years of becoming a member.

Different members use a range of mechanisms to report, for example, their websites, social media, annual reports, or stand-alone sustainability reports. However, the majority of SBC's members produce an annual sustainability report or have sustainability-related information such as governance, risk and opportunity, environmental and social data included within their annual reports.